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COMPANY DEEP-DIVE

Former Director at Biocoat Believes GTCR Is Committed to Surmodics Deal Despite Antitrust Concerns and Potential Biocoat Sale

DATE PUBLISHED	INTERVIEW DATE	EXPERT PERSPECTIVE	ANALYST PERSPECTIVE	PRIMARY COMPANY
01 May 2025	31 Jan 2025	Former	Investor-Led (Buy-Side)	BIOCOAT

Summary

The expert discussed the potential Surmodics-Biocoat deal with the client, highlighting the FTC's concerns about creating a monopoly and the interchangeability of UV and thermal coating technologies. The expert suggested that GTCR may sell Biocoat to proceed with the deal, as Surmodics is considered a more valuable asset, and mentioned that Biocoat could be worth double the reported revenue. Despite potential antitrust issues, GTCR is committed to completing the deal, even if it means selling Biocoat at a discount. The sales process for Biocoat may happen quickly and privately, with Medtronic possibly having leverage in negotiations.

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Expert Bio

Former Sr. Director of Business Development at Biocoat. Expert has over 13 years of experience in the Hydrophilic Coating Industry. The expert can discuss key players like Surmodics and Biocoat, their market share, and their competitive positioning. Expert can also provide insights into major OEMs bidding on RFPs in cardiovascular, peripheral, and neurovascular markets. Additionally, the expert can explain UV vs. thermal-based curing methods and the potential impact of a Surmodics-Biocoat merger on industry competition. Current Vice President of Business Development at Precision Coatings, in the biocoatings space since April 2023. for Reporting to the CEO. Expert is responsible for overseeing strategic partnerships, market expansion, and product innovation in the bio coatings sector at Precision Coatings. Former Sr. Director of Business Development at Biocoat leaving April 2023. The expert is responsible for creating and running a new EcoPrinting Division for several different types of coatings, contract negotiating for various projects, prospecting for new business, and working across technical service and process development. The Expert reported directly to the CEO. The expert can discuss Biocoat and competitors like Surmodics, Harland, and DSM Biological. Expert has over 13 years of experience in the Hydrophilic Coating Industry.

Employment History

 Precision Coating (Private)	Relevant Role
Vice President of Business Development • March 2023 - Present • 2 yrs, 4 mos	
 Biocoat (Private)	
Sr. Director, Business Development - Capital Equipment • January 2021 - April 2023 • 2 yrs, 3 mos	
 Biocoat (Private)	
Sr. Director, Technical Sales and Services - Coatings Technology • January 2018 - December 2021 • 3 yrs, 11 mos	

Interview Transcript

Client 00:00:00

Thanks for taking the time to reconnect. We're really coming at it from the angle of the Surmodics-Biocoat deal, whether or not you think it'll happen, and what the implications of that could be. I'll just keep it open-ended. Since we spoke three months ago, I think your view at that time was **it was going to be tricky to get** done. These guys are two of the primary hydrophilic coating guys that can produce at scale. Has anything changed? Have you heard anything different? Any updated views?

Expert 00:00:29

What has changed is just three months have gone by. Nothing has happened. The chatter in the industry continues to be the same. I personally have not been contacted by FTC, but I know several of my friends and colleagues over the years from coatings industry who make coatings or use coatings have been contacted by FTC for multi-hour questions, an interview similar to what we're doing right now.

The concern or the question is along the lines about creating a monopoly. They are all getting questions, similar to our calls or discussions, around trying to understand the industry, the market, the end-use applications. They're looking at this and these from the standpoint of monopoly, **which is the bottom-line concern for them.** In some cases, I have personally talked to some folks who make coatings, apply coating services such as Formacoat and people at Hydromer and not as many as Harland.

Competitors as such are not worried because that means one less competitor. The only thing **they are worried** about is overall access to market, meaning, as an example, if the combined Surmodics market goes to, say, Medtronic, which is huge company, and they say, "We will not raise prices on you," which is a concern, "but you can only use us." That means it's restricting access to other players. **That's the only concern from the competitor standpoint.**

Otherwise, there's no concern. It's just one less competitor. In fact, some companies may feel that they do need to look at other players, other companies, because they can't put all the eggs in one basket. That's the competitor perspective. Not worried overall, just one or two minor concerns.

From the usage perspective, I've talked to a few, just general, understanding their perspective. Depending on who you talk to, they're not worried. R&D engineers or supply chain people are not as much worried. **People who negotiate contracts and pricing, they are probably a little worried just because they think that they could put pricing pressures in the future.** That's the competition view and the usage view that I'm aware of.

In addition, I've heard that **FTC did express some concerns to some people around monopoly,** but clearly, they haven't made any decisions yet. I heard that GTCR people who will now own both, they are using the argument that these two are separate technology. Biocoat is thermal coating, meaning coating that is applied and dried with heat. Surmodics is a UV coating, which is apply and cure or dry with UV light.

They're doing separate technologies, which is true by the way, and that the two different technologies combining in same industry. FTC is focused on end application, which is the same. A classic example would be a gas-driven car and electric car. They're two different technologies, but they're both cars.

Imagine in a car industry, there's few companies. If electric car company wants to buy a gas car company or gas car company wants to buy electric company, would that be a problem? They're two different technologies, yes, but there's cars. That's the conundrum. That's the confusion or the tricky part in all of these. The argument is correct that they're two different technologies.

Client 00:03:37

Your view, I remember from last time, is that they're two different technologies. You don't buy that they're different use cases.

Expert 00:03:45

Yes, it's same thing.

Client 00:03:46

I know some people argue that basically thermal is much better for neuro applications.

Expert 00:03:52

No, that's not true. I'll give you an example. I was probably one myself when I was at Biocoat. I would do the same because Biocoat coating worked better on neuro application because of how technology work. I also have counterargument because now that I don't work at Biocoat, that if it was the case that Biocoat is best on neuro, Biocoat neurovascular business would be 10X bigger than Surmodics. That's not the case.

Surmodics is a public company. Look up their customer base and the revenue. Their revenue from neurovascular only is probably the size of Biocoat. The neurovascular business from Surmodics is as big as the whole of Biocoat. How is that possible if Biocoat was the best and the only thing that worked in neuro, and Surmodics things did not work? That's not true. They all have neurovascular customer. Surmodics has neurovascular accounts, applications, customers. Biocoat has. Number three, number four player also has.

Client ▶ 00:04:48

Your view is the vast majority of any product could use UV or thermal coating. It's mostly interchangeable.

Expert ▶ 00:04:55

No. There's no doubt in my mind that they are interchangeable. You can argue about the performance criteria and differences. We can talk about that two, four, five hours. However, the fact still remains that they are interchangeable, yes.

Client ▶ 00:05:09

That's helpful. You don't buy the party's argument that thermal and UV are separate. They are separate technology. You don't buy that they're separate markets that don't compete against one another.

Expert ▶ 00:05:20

Correct. My stance is clear. It's very clear from day one. I have been in this industry for 16 years. They are two different technologies, yes, but the end application is the same and interchangeable.

Client ▶ 00:05:33

Got it. It sounds like the FTC is pushing back on the parties' theory, consistent with what you're saying that they're interchangeable. The next logical question to me is if they have to, will GTCR look to sell Biocoat to get the deal done?

Expert ▶ 00:05:47

100%. If FTC says, "Listen, you can only own one company," Surmodics is the company they will keep and they will sell off Biocoat, no question. There's not even a doubt. Surmodics is a better asset than Biocoat, much bigger, more established brand. If you look at the financials, and the technology, and the customer base, and the future five-year strategy, **Surmodics is a better asset than Biocoat.**

The only reason GTCR bought Biocoat first is because Biocoat came on the market before Surmodics. If this was reverse, that Surmodics came on the market before Biocoat and GTCR bought Surmodics, they would still go after Biocoat but I think if **they lost on Biocoat**, they would not be worried. They would not lose sleep on it. **I think the argument** is that they went after Surmodics next is because that's when they came on the market. It was just a timing issue.

Client ▶ 00:06:40

Yes. Have **you heard any chatter** that Biocoat is up for sale or that they're looking at potential buyers or anything like that?

Expert ▶ 00:06:48

No, not me personally.

Client ▶ 00:06:49

Got it. Just knowing the players, does anyone make sense as a potential buyer for Biocoat?

Expert ▶ 00:06:55

Many. Absolutely. Without going into specifics, I was there when Biocoat got sold twice. First was 1315 Capital and second time, GTCR. Both time, there were many bidders. Let's just say that. I can easily identify. I can make five calls and they'll all say, yes, they will want Biocoat. Remember, Biocoat is a smaller company but fantastic books. The top-line to bottom-line, it's probably the top 2% in the world.

Client 00:07:20

Yes. It's niche but **it's a good niche business**. I think we talked about this last time. You don't have to get into specifics. In terms of the size of the Biocoat business, I've seen some other reports that were around \$20 million of revenue, something like that. Does that sound in the right ballpark?

Expert 00:07:38

A little north of that but yes.

Client 00:07:40

Okay. I'm just trying to think of a potential sale price for Biocoat, like around 4X or 5X sales. Maybe it's like a \$100-million business, something like that?

Expert 00:07:51

No, double that.

Client 00:07:52

You think it's worth more than that?

Expert 00:07:54

Double that. Yes, at least. I don't know if you're following the industry, the M&As in medtech, in U.S. Are you following medtech M&As?

Client 00:08:02

Yes. What other deals are going on right now? Zimmer just announced something. What, are you referring to any specific deal?

Expert 00:08:10

Reason I'm asking is because in last five years, definitely after COVID, most contract manufacturing deals in medtech, they've been anywhere between 13x and 20x EBITDA. If it's a healthy company, all factors play in, you are higher in that multiple. Integer bought Aran Biomedical, I think last year, if I'm not mistaken. That was 20x EBITDA. Very niche market, \$27 million in revenue, it's a reference point.

Client 00:08:35

The reason why I was saying \$100 million was because if you look at the Surmodics deal itself, they're selling for about 5X sales, but **Biocoat has higher margins**. Surmodics is not just a coatings business. The coatings, and then they have the device business as well, which maybe **the device business is less attractive than the coatings business**. I have the Surmodics deal. Are you familiar with the other side of the Surmodics business at all, the medtech piece?

Expert 00:09:04

Yes, a little bit.

Client 00:09:05

I don't know if you have any comments on this. **They've had some issues on the SurVeil balloon**, I think. It hasn't been selling well.

Expert 00:09:13

It hasn't been selling well? I know they got approval last year, sometime.

Client 00:09:17

If you look in their last 10-Q, Surmodics, basically Abbott, they're the commercialization partner. They built way too much inventory. It's not selling. They only expect to sell about 1/3 of their inventory. They said **SurVeil is down like 70% versus last year**.

Expert 00:09:34

It's first year of sales. I know they're not the first in the market with that product. They're competing with Medtronic and others in drug-coated balloon product. I know they were, of course, hedging huge bets on the success of it in Abbott and all the deals they have made. I honestly have not heard that it's not doing well or the other way around. If you're saying they only sold one through the inventory, it might be something got to do with commercial efforts because FDA would not approve if it was inferior product.

Client 00:10:04

Yes, I know. I think it's more just around the competitive landscape. It sounds like you're describing that GTCR could be in for a fight with the FTC. Do you get the sense that they are ready to take on the FTC if they have to?

Expert 00:10:18

Yes. They're a \$20-billion company or more. GTCR through Chip, who bought this deal, he's a industry veteran.

Client 00:10:25

All signs you're getting is that they're very committed to trying to get the deal done?

Expert 00:10:31

I don't see otherwise. I haven't seen any deal they have backed off. They're aggressive people. They go after deals very aggressively, even overpaid. I think they overpaid Biocoat, by the way. They were sweating and probably Surmodics came and said, "Oh we need to buy this no matter what," because they were sweating. They were not getting the return they expected. They probably thought they overpaid, which they did, I think.

This is again personal opinion. I think they will be committed. I think if FTC goes back into, "Listen, you can only own one company," I think **they'll keep Surmodics, lose Biocoat.** I'm pretty sure they will make three phone calls and get deal done in a week, even if **it means losing money on Biocoat.**

Let's say they bought it for a certain amount. If they ever sell it for \$30 millions less than that, I think they'll sell it because they would want to keep Surmodics. No question. There will be buyers for Biocoat. No question. Again, I'm not too familiar with the whole deal making process and how the private equity rolls, but I know those deals can be made pretty fast.

Client 00:11:37

Got it. That makes sense to me logically, especially since there's a clause in the contract that if they were to back out of the Surmodics deal, **they would owe a big amount** just to back out.

Expert 00:11:49

Really? They have to pay somebody a big amount to back out?

Client 00:11:52

Yes, if it gets blocked for antitrust. Their choices are basically sell Biocoat or pay that big amount and get nothing.

Expert 00:12:00

There you go. **They would rather sell Biocoat at discount and lose millions of dollars,** I'm just making numbers, rather than losing that big amount. That's the logic.

Client 00:12:10

Curious why you think they overpaid for Biocoat. Has **it underperformed** versus when they bought in in 2018 or whatever it was?

Expert 00:12:18

There are a bunch of reasons why I think they overpaid. They were also bidders the first time when **they lost the bid.** 13, 15 got us and little bit of hubris that they wanted a coating company. Are you following GTCR's medtech acquisitions and all of that? If you look at what they have done with Resonetics in component space, **they probably bought 10 companies within like two or three years and made Resonetics into a huge gorilla in the market.**

Client 🗣 00:12:47

Resonetics is more on the CDMO side?

Expert 🗣 00:12:49

Yes. I think they sold a big chunk to Carlyle Group for I think \$2.1-billion valuation. That's what they do. They are thinking big. They go after companies even if they have to overpay. They want what they want. There's a lot of hubris in it. They lost on Biocoat. They came back and they wanted to do same in surface technology. They started with Biocoat. **They lost on few other companies** that I know of.

They probably want to do the same thing they did with Resonetics with coatings and surface technology companies. They probably said, "You know what? No matter what, I want Biocoat." They probably paid two turns more. If you look at the comparison, what others were willing to pay, there was a big differential. That's the reason I think they overpaid because of the differential compared to others.

Second is if I was independently wealthy, I would not pay that much for Biocoat. The return are not as fast. They probably got a lot of reality check after they owned Biocoat. It's a little different business compared to CDMO like Resonetics. Whether you sell a component to the medical device industry, the sales cycle, the turn time, **all of that is much slower and less exponential** initially compared to what they might have modeled.

I think those are the main factors where I felt that they probably would have thought, "Oh boy, we paid a little more than what we should have." Surmodics came along, and I think everybody would want to go buy Surmodics if they were in the market first. I would buy Surmodics before Biocoat any day.

Client 🗣 00:14:20

Yes. It seems like their actions at Biocoat in terms of trying to start the UV coating product, and then eventually just buying Surmodics, they're basically admitting that **it's been harder to displace with business from Surmodics** than they thought, probably.

Expert 🗣 00:14:36

Right.

Client 🗣 00:14:37

Okay. Just speculation on your part, there was another bidder for Surmodics besides GTCR. Do you have any guesses on who that could be?

Expert 🗣 00:14:45

No idea.

Client 🗣 00:14:45

Okay. I know it's speculation, but rather than try to win in court on this argument that UV and thermal are different technologies, you think it's an easier path for GTCR just to sell Biocoat and buy Surmodics?

Expert 🗣 00:14:59

Again, speculation, my personal view, yes. Look at all the numbers. Look at all the scale. Why would you keep a smaller asset? If you have two ducks in your hand, you will keep the bigger asset. It's not a money issue. They can afford both together. It comes down to what they would want to keep. There's no question in my mind they would want to keep Surmodics given they would find a buyer, and then **I have no doubt** they'll find a buyer for Biocoat.

Client 🗣 00:15:26

Yes. Going back to what you originally said, in terms of what the FTC is doing. Have you heard of customers complaining to the FTC or talking to the FTC?

Expert 00:15:35

I know that FTC has talked to some customers. I don't know directly firsthand if any of them have expressed concern. It's just the chatter. Again, this is all second-, third-hand information. Like I said earlier in the call, people in the R&D who are developing product, they probably don't care. They just want the best product on the market. Supply chain people don't care. They just want to make sure the supply continues.

I think it's the people who negotiate agreements. They look for backup options so that suppliers don't have leverage on pricing and negotiating leverage. Those people were nervous. Again, depending on who you talk to, let's say, Medtronic, depending on who you talk to in Medtronic, you'll get different answer. That's why it becomes tricky for FTC too.

Client 00:16:22

Your general view is that Medtronic probably would have enough leverage given their large customer to push back on a lot of pricing power?

Expert 00:16:30

Yes and no. What is Medtronic going to do? By the way, in this industry, the agreements are long-term, 10-year agreements. Usually, there is a price cap that you can't just go above 5%, I'm just picking a number, every year. I think **all these companies are mostly worried about royalty business model with Surmodics**. It's common with Surmodics.

Now, they will not have option to look at alternatives. In the past, what would happen is number two, number three, number four player would say, "You don't like royalty model? We'll give you no-royalty model business arrangement." Now, they would not get that.

Not necessarily they're worried about price increases, it's **they're worried about the lack of options and leverage**, from the perspective of what other businesses or business model they can evaluate, what leverage do they have. No OEM, and we all know that, likes to be hand-twisted. They like to be in the driver's seat. They will get a sense that they do not have that control.

Client 00:17:30

Okay. I think we're at this point where logically it makes sense that, in the face of opposition, GTCR is going to look to remedy the issue via divesting Biocoat. It doesn't seem like, as far as what I've been able to pick up, there's any actual sales process for Biocoat going on yet. That's the next phase.

Expert 00:17:49

Quite frankly, those things will happen so fast and so private that people like me, even in the industry, would not be aware. GTCR is going to probably make three calls.

Client 00:18:00

Okay. Well, thank you again for taking the time to speak with us today. This was very helpful. Enjoy the rest of your day.